

TRUE AND FALSE QUESTIONS

CHAPTER 1 – INTRODUCTION TO ACCOUNTING

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities. [Dec. 1993]
2. Capital is all assets less fictitious assets. [May 2001]
3. Transactions and events are guided by generally accepted accounting principles subject to laws of land. [Nov. 2002]
4. Accounting can be viewed as an information system which has its input processing methods and outputs. [May 2003]
5. Equity + LTL - CL = FA + CA [May 2003]
6. Accounting involves communication. [Nov. 2003]
7. Capital is equal to assets less external liabilities. [Nov. 2004]
8. As per AS - 1, Fundamental Accounting Assumptions are Going Concern, Full Disclosure and Accrual.
9. Qualitative Characteristics of Financial Statements are - Understanding, Relevance, Reliability and Materiality.
10. Major considerations governing the selection and application of accounting policies are Prudence, Substance over Form and Full Disclosure.
11. Valuation Principles are - Historical Cost Base, Current Cost Base, Realizable Value Base and Future Value Base.
12. Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the external users of accounts.
13. A person who owes money to the firm is a creditor.
14. A person to whom the firm owes money is a debtor.
15. Furniture purchased by Rama Motors is a current asset.
16. Furniture purchased by Rama Furniture is a fixed asset.
17. A transaction which increases the capital is called Income'.
18. Amount owed to outsiders (other than proprietor) is called capital.
19. An increase in assets is always due to profits.
20. Profit/Loss = Closing Capital + Additional Capital - Drawings - Opening Capital.

ANSWERS:

S. No.	Reason
1.	False: The right hand side of the equation includes cash twice-once as a part of current assets and another separately. The basic accounting equation is: $\text{Capital} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} - \text{Current Liabilities}.$
2.	False: Capital is all assets <i>less</i> fictitious assets <i>less</i> outside liabilities.
3.	True: Transactions and events are guided by generally accepted accounting principles subject to laws of land. For example, the Companies Act has prescribed the format of financial statements of companies. All transactions with suppliers and customers are governed by The Contract Act, The Sale of Goods Act and The Negotiable Instruments Act, etc.
4.	True: Accounting is a process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of accounts. Here, Input = Financial transactions Processing Methods = Recording, Classifying, Summarizing, Analysing and Interpreting Output = Communicating the accounting information to the users
5.	False: The basic accounting equation is: $\text{Equity} + \text{LTL} = \text{FA} + \text{CA} - \text{CL}$
6.	True: Accounting is the process of identifying, measuring and <i>communicating</i> economic informations to permit informed judgements and decisions by the users of accounts. Hence, accounting involves communication.
7.	True: Capital is equal to all assets (whether tangible or intangible but not fictitious) <i>less</i> external liabilities.
8.	False: As per AS - 1, Fundamental Accounting Assumptions are Going Concern, Consistency and Accrual
9.	False: Qualitative Characteristics of Financial Statements are - Understanding, Relevance, Reliability and Comparability.
10.	False: Major considerations governing the selection and application of accounting policies are Prudence, Substance over Form and Materiality.
11.	False: Valuation Principles are - Historical Cost Base, Current Cost Base, Realizable Value Base and Present Value Base.
12.	False: Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the all users of accounts.
13.	False: A person who owes money to the firm is a debtor.
14.	False: A person to whom the firm owes money is a creditor.

15.	False: Furniture purchased by Rama Motors is a fixed asset.
16.	False: Furniture purchased by Rama Furniture is a current asset.
17.	False: A transaction which increases the capital need not necessarily be Income'. It may be additional capital contribution.
18.	False: Amount owed to outsiders (other than proprietor) is called External Liability.
19.	False: An increase in assets is not necessarily due to profits. It may be due to purchase of assets.
20.	False: Profit/Loss = Opening Capital + Additional Capital - Drawings - Closing Capital.

CHAPTER 2 - ACCOUNTING PRINCIPLES

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Prudence is a concept to recognise unrealized profits and not losses. *[June 1993]*
2. In accounting, all business transactions are recorded as having dual aspect. *[Nov. 1996]*
3. Accrual concept implies accounting on cash basis. *[May 1998, Nov. 2001 and May 2004]*
4. Revenues are matched with expenses in accordance with the matching principle. *[May 2003]*
5. The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle. *[May 2003]*
6. The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumptions. *[Nov. 2003]*
7. Accounting principle is general rule followed in preparation of financial statements. *[Nov. 2004]*
8. As per the concept of conservatism, the accountant should provide for all possible losses, but should not anticipate income. *[Nov. 2005]*
9. The Assets are classified as Current Assets and Fixed Assets as per Full Disclosure Principle.
10. The Assets and Incomes are not overstated and the Liabilities and Losses are not understated as per Accrual Principle.
11. Accounting of a small calculator as an Expense and not as an Asset is as per Going Concern Principle.
12. The Accounting Data should be definite, verifiable and free from personal-bias as per Materiality Principle.
13. Materiality Principle is an exception to Consistency Principle.

14. Valuation of Inventory at Lower of Cost or Net Realizable Value (NRV), making Provision for Doubtful Debts and Discount on Debtors are the applications of Consistency Principle.
15. Disclosure is required if Fundamental Assumptions are followed.
- 16.
17. Prudence Principle is an exception to Full Disclosure Principle.
18. Change in Accounting Estimate has to be given Retrospective Effect.
19. Personal transactions are distinguished from business transactions in accordance with the Money Measurement Assumption.
20. When stock is valued at cost in one accounting period and at lower of Cost and net realisable value in another accounting period Consistency Principle conflicts with the Prudence Principle.
21. Accrual means recognition of revenue as it is earned and of costs as they are paid.
22. Going Concern Concept fixes up the time frame for which the performance is to be measured and financial position is to be appraised.
23. According to Matching Principle, Periodic Profit = All Revenues - All expenses.
24. According to Accounting Standard (AS-1), the fundamental accounting assumptions are Going Concern, Conservatism and Accrual.
25. Prudence is the inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under condition of uncertainty so that assets and income are not understated, and loss and liabilities are not overstated.
26. X purchased goods for Rs.20,000 and sold 9/10th of the goods for Rs.24,000 and met expenses of Rs.2,000. He counted net profit as Rs.2,000 (i.e. Rs.24,000 - Rs.20,000 - Rs.2,000). He has violated the Cost Concept.
27. X Ltd purchased a machine for Rs.1,00,000 on 1.1.2018. The market price of the machine was Rs.1,20,000 on 31.12.2018. The accountant of X Ltd values machine for Rs.1,20,000 while finalising the accounts. He has violated the Realisation Concept.
28. X purchased merchandise worth Rs.24,000 and sold 11/12 of the merchandise. The market value of the remaining merchandise was Rs.1,920. He valued the closing stock at Rs.2,000. He has violated the Realisation Concept.
29. Prudence is a concept to recognise realised losses and not profits.
30. Prudence is a concept to recognise all losses and not profits.

ANSWERS:

S. No.	Reason
1.	False: Prudence is a concept to recognize unrealized losses and not profits.
2.	True: Being associated with the double entry system of book keeping every transaction has a <i>two-fold effect</i> in accounting whereby one account is debited and another is credited by the same amount.

3.	False: Accrual concept implies accounting on 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
4.	False: Expenses are matched with revenues in accordance with the matching principle. Concept of matching requires accrual and periodicity concepts as accrued revenues are matched with accrued expenses of a definite accounting period.
5.	True: The financial statement must disclose all the relevant and reliable information in accordance with AS-1 Disclosure of Accounting Policies.
6.	False: The economic life of an enterprise is artificially split into periodic intervals in accordance with the accounting period assumption or the periodicity concept. The going concern assumption assumes that an enterprise will continue in operation for indefinite period of time.
7.	True: Accounting principles may be defined as those rule of action, which are adopted by the accountants universally while recording accounting transactions.
8.	True: The financial position of a business should not be shown better than what it is. Hence an accountant should not anticipate income but should provide for all possible losses.
9.	False: The Assets are classified as Current Assets and Fixed Assets as per Going Concern Principle.
10.	False: The Assets and Incomes are not overstated and the Liabilities and Losses are not understated as per Prudence Principle.
11.	False: Accounting of a small calculator as an Expense and not as an Asset is as per Materiality Principle.
12.	False: The Accounting Data should be definite, verifiable and free from personal-bias as per Objectivity Principle.
13.	False: Materiality Principle is an exception to Full Disclosure Principle.
14.	False: Valuation of Inventory at Lower of Cost or Net Realizable Value (NRV), making Provision for Doubtful Debts and Discount on Debtors are the applications of Prudence Principle.
15.	False: No disclosure is required if Fundamental Assumptions are followed.
16.	
17.	False: Prudence Principle is an exception to Consistency Principle.
18.	False: Change in Accounting Estimate has not to be given Retrospective Effect.
19.	False: Personal transactions are distinguished from business transactions in accordance with the Accounting Entity Assumption.

20.	False: When stock is valued at cost in one accounting period and at lower of Cost and net realisable value in another accounting period Prudence Principle conflicts with the Consistency Principle
21.	False: Accrual means recognition of revenue as it is earned and of costs as they are incurred.
22.	False: Accounting Period Concept fixes up the time frame for which the performance is to be measured and financial position is to be appraised.
23.	False: According to Matching Principle, Periodic Profit = All Accrued Revenues - All Accrued expenses
24.	False: According to Accounting Standard (AS-1), the fundamental accounting assumptions are Going Concern, Consistency and Accrual
25.	False: Prudence is the inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under condition of uncertainty so that assets and income are not overstated, and loss and liabilities are not understated.
26.	False: X purchased goods for Rs.20,000 and sold 9/10th of the goods for Rs.24,000 and met expenses of Rs.2,000. He counted net profit as Rs.2,000 (i.e. Rs.24,000 - Rs.20,000 - Rs.2,000). He has violated the Matching Concept.
27.	False: X Ltd purchased a machine for Rs.1,00,000 on 1.1.2018. The market price of the machine was Rs.1,20,000 on 31.12.2018. The accountant of X Ltd values machine for Rs.1,20,000 while finalising the accounts. He has violated the Cost Concept.
28.	False: X purchased merchandise worth Rs.24,000 and sold 11/12 of the merchandise. The market value of the remaining merchandise was Rs.1,920. He valued the closing stock at Rs.2,000. He has violated the Prudence Concept.
29.	False: Prudence is a concept to recognise unrealised losses and not profits.
30.	False: Prudence is a concept to recognise all unrealised losses and not profits.

CHAPTER 3 - JOURNALISING, POSTING AND BALANCING

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

- The sales day book is a part of the ledger. *[Nov. 1994, Nov. 2001 and May 2004]*
- Sale of office furniture should be credited to Sales Account. *[Nov. 1995, Nov. 1997, Nov. 2001 and May 2004]*
- When we buy furniture on cash we debit Cash Account. *[June 1993]*
- Patent right is in the nature of nominal account. *[Nov. 1995, Nov. 2001 and of May 2004]*
- Outstanding expenditure is a nominal account. *[Nov. 1999]*

6. The debts written off as bad, if recovered subsequently are credited to Debtors Account.
[Nov 1996 and May 2002]
7. Wages paid for erection of machinery are debited to Profit and Loss Account.
[Nov. 1995, Nov. 2000 and May 2002]
8. The return of goods by a customer should be debited to Return Outward Account. [Nov. 2003]
9. The balance of an account is always known by the side which is shorter. [Nov. 2003]
10. Nominal accounts are balanced at the end of the accounting year. [May 1999]
11. The allowance made for prompt payment is called trade discount. [June 1994]
12. Bank Account is a Real Account. [Nov. 2005]
13. Goods costing Rs.600 taken by the proprietor for personal use should be credited to Sales Account. [May 2005]
14. Rent paid account is a Nominal Account whereas, rent received account is a Real Account. [May 2005]
15. Where subsidiary books are maintained journal is not required. [May 2005]
16. $\text{Fixed Assets} + \text{Current Assets} - \text{External Liabilities} = \text{Capital} + \text{Creditors}$
17. Reserve for Discount on Creditors has a credit balance.
18. Normally Personal and Nominal accounts are balanced and not Real Accounts.
19. Real and Personal Accounts are closed at the end of accounting period.
20. The return of goods to a suppliers should be credited to Return Inward Account.
21. Prepaid Expense is a Nominal Account.
22. The allowance made for promoting sales is called cash discount.
23. When trade discount is allowed to a customer, trade discount allowed is credited.
24. Goods costing Rs.600 distributed as free samples should be credited to Sales Account.
25. The recovery of debts (due from Mohan Rs.10,000) written off in the previous year should be credited to Mohan's Account.
26. Debit means an increase in liability and a decrease in an asset.
27. Credit means an increase in asset and a decrease in a liability.
28. Journal is a book of secondary entry.
29. Ledger is a book of original entry.
30. L.F. (i.e. Ledger Folio column) in the journal is filled at the time of journalising.
31. The words 'To Balance b/d' or By Balance b/d are recorded in the particulars column at the time of balancing.
32. A sale of goods to Ram for cash should be debited to Ram.
33. A withdrawal of cash from business by the proprietor should be credited to Drawing Account.
34. Goods were sold to Ram for Rs.1,000 on 1.4.2018. On 1.5.2018, Ram paid Rs.950 on account. Ram's Account should be credited with Rs.1,000.

35. Ram paid Rs.900 towards a debt of Rs.950 which was written off as bad in the previous year. Ram's Account should be credited with Rs.950.
36. Goods worth Rs.100 taken by the proprietor for personal use should be credited to Sales Account
37. In case of debit balance. The words 'To Balance c/d' are written on credit side
38. While posting an opening entry in the ledger, in case of an Account having debit balance, the words 'To Balance b/d' are written on credit side and in case of an Account having credit balance the words 'By Balance b/d' are written on debit side

ANSWERS:

S. No.	Reason
1.	False: The sales day book is a book of prime entry and hence it is a part of journal .
2.	False: Sale of office furniture should be credited to Furniture Account because it is a capital receipt.
3.	False: When we buy the furniture on cash the furniture account is debited and cash account is credited.
4.	False: Patent-right being an intangible asset is in the nature of real account .
5.	False: Outstanding expenditure is a personal account of representative nature because it represents a liability due to some person.
6.	False: The debts written off as bad, if recovered subsequently, shall be treated as gain and be credited to Bad Debts Recovered Account which is closed by transferring it to the Profit and Loss Account.
7.	False: Such wages being capital expenditure should be debited to the machinery account.
8.	False: The return of goods by a customer should be debited to Returns Inward Account .
9.	False: The balance of an account is always known by the side which is higher .
10.	False: Nominal accounts are not balanced but are closed by transferring their balances to the Income Statement.
11.	False: The allowance made for prompt payment is called cash discount .
12.	False: Bank Account is a Personal Account
13.	False: Goods taken by the proprietor for personal use should be credited to Purchases Account.
14.	False: Rent paid and rent received—both are nominal accounts as they relate with expenses and incomes.

15.	False: Journal is required even where subsidiary books are maintained. Opening and closing entries, rectification entries, transfer and adjusting entries and other miscellaneous entries are recorded in the journal.
16.	False: Fixed Assets + Current Assets + Fictitious Assets = Capital + External Liabilities. (Creditors also included in the External Liabilities.)
17.	False: Reserve for Discount on Creditors has a debit balance.
18.	False: Normally Personal and Real accounts are balanced and not Nominal Accounts.
19.	False: Real and Personal Accounts are balanced and not closed at the end of accounting period.
20.	False: The return of goods to a suppliers should be credited to Return Outward Account.
21.	False: Prepaid Expense is a personal Account of representative nature because it represents an asset due from some person.
22.	False: The allowance made for promoting sales is called trade discount .
23.	False: When trade discount is allowed to a customer, trade discount allowed is not recorded at all.
24.	False: Goods costing Rs.600 distributed as free samples should be credited to Purchases Account.
25.	False: The recovery of debts (due from Mohan Rs.10,000) written off in the previous year should be credited to Bad Debts Recovered Account.
26.	False: Debit means a decrease in liability and an increase in an asset.
27.	False: Credit means in a decrease asset and an increase in a liability.
28.	False: Journal is a book of original entry.
29.	False: Ledger is a book of secondary entry.
30.	False: L.F. (i.e. Ledger Folio column) in the journal is filled at the time of posting.
31.	False: The words 'To Balance c/d' or 'By Balance c/d' are recorded in the particulars column at the time of balancing.
32.	False: A sale of goods to Ram for cash should be debited to Cash.
33.	False: A withdrawl of cash from business by the proprietor should be credited to Cash Account.
34.	False: Goods were sold to Ram for Rs.1,000 on 1.4.2018. On 1.5.2018, Ram paid Rs.950 on account. Ram's Account should be credited with Rs.950.
35.	False: Ram paid Rs.900 towards a debt of Rs.950 which was written off as bad in the previous year. Bad Debt Recovered Account should be credited with Rs.900.

36.	False: Goods worth Rs.100 taken by the proprietor for personal use should be credited to Purchases Account
37.	False: In case of debit balance. The words 'To Balance b/d' are written on debit side
38.	False: While posting an opening entry in the ledger, In case of debit balance, the words To Balance b/f are written on debit side and In case of credit balance the words 'By Balance b/f are written on credit side

CHAPTER 4 - CASH BOOK

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

- The balance in the Petty Cash Book represents expense. [Dec. 1993, May 1999, May 2005]
- The balance in the cash book shows net income. [May 1996]
- Bank column of the cash book will show only a debit balance. [Nov. 2002]
- Cash column of a Cash Book may show a debit or credit balance.
- In a Cash Book, Discount Columns may show either debit balance or credit balance. [May 1997 and May 2000]
- If a cheque received is further endorsed, it must be entered on both sides of the cash book. [Nov. 2003]
- A crossed cheque is always payable across the bank counter. [Nov. 2002]
- Cash Book is a special Journal and not a Ledger.
- In a Cash Book, Trade Discount received is recorded on the debit side of Cash Book and Trade Discount allowed is recorded on the credit side of Cash Book.
- In a Cash Book, Cash Discount received is recorded on the debit side of Cash Book and Cash Discount allowed is recorded on the credit side of Cash Book.
- When a firm maintain a Three-column Cash Book, it need not maintain Cash Account, Bank Account and Discount A/c in the Ledger.
- If a debit as well as credit aspects of a transaction are recorded in the Cash Book itself, it is called a double Entry.
- The allowance made for prompt payment is called Trade Discount.
- The total of Discount column on debit side of Cash Book is posted to the Credit of Discount Account.

ANSWERS:

S. No.	Reason
1.	False: The balance in the Petty Cash Book represents unspent petty cash balance lying with the Petty Cashier. It is shown on the asset side of the Balance Sheet under the heading 'Cash & Bank Balances'.

2.	False: The balance in the cash book shows <i>cash in hand</i> .
3.	False: Bank column of the cash book <i>may show credit balance in case of bank overdraft</i> .
4.	False: Cash Column of a cash book always shows a debit balance
5.	False: Discount Columns of a Cash Book are merely totalled but never balanced. Debit total of discount column represents discount allowed and that of credit side represents discount received. These are merely totalled and transferred to Discount Allowed and Discount Received Account respectively.
6.	True: The cash book is debited when the cheque is received and it is credited when it is endorsed in favour of somebody.
7.	False: Only a <i>bearer</i> cheque is payable across the bank counter.
8.	False: Cash Book is both special Journal and Ledger.
9.	False: In a Cash Book, Cash Discount is recorded and not the Trade Discount.
10.	False: In a Cash Book, Cash Discount received is recorded on the credit side of Cash Book and Cash Discount allowed is recorded on the debit side of Cash Book.
11.	False: When a firm maintain a Three-column Cash Book, it need not maintain Cash Account and Bank Account. Discount A/cs are maintained in the Ledger
12.	False: If a debit as well as credit aspects of a transaction are recorded in the Cash Book itself, it is called a contra Entry
13.	False: The allowance made for prompt payment is called Cash Discount.
14.	False: The total of Discount column on debit side of Cash Book is posted to the debit of Discount Allowed Account.

CHAPTER 5 - SUBSIDIARY BOOKS OTHER THAN CASH BOOK

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Purchase book records all purchases of goods. [Nov. 1996]
2. The purchase day book is a part of the ledger. [Nov. 2002, Nov. 2005]
3. The Sales book is kept to record all sales. [Nov. 2002]
4. The debit notes issued are used to prepare sales return book. [May 2003]
5. Opening, Closing, Rectifying and Adjusting entries are recorded in journal proper. [Nov. 2003]
6. An individual transaction of Purchase Book is posted to the credit of Purchases A/c.
7. Purchases A/c in the ledger shows all purchases.
8. The Credit Notes are used to prepare Purchases Returns Book.

9. Where Cash Book, Purchases Book, Sales Book, Purchases Returns Book, Sales Returns Book, Bill Receivable Book and Bill Payable Book are maintained, Journal need not be maintained.
10. Purchases Returns Book is used to record return of all assets purchased on credit.
11. Sales Returns Book is used to record return of assets sold on credit.
12. When a customer returns the goods, a debit note is sent to him.
13. When the goods are returned to a supplier, a credit note is sent to him.
14. Purchase of a fixed asset on credit is recorded in Purchases Book.
15. The allowance made for prompt payment is called Trade Discount.
16. The total of Purchases Returns Book is posted to the debit of Purchases Account.

ANSWERS:

S. No.	Reason
1.	False: Purchase book records <i>only credit purchases</i> of goods dealt in or of material and stores used in the factory.
2.	False: Purchase day book is a book of prime entry and hence it is a part of <i>journal</i> .
3.	False: The Sales book is kept to record <i>only the credit sales</i> of goods dealt in by the firm, Cash sales are entered in the cash book.
4.	False: The debit notes issued are used to prepare <i>purchase return book</i> .
5.	True: All the Opening, Closing, Rectifying and Adjusting entries are recorded in journal proper because these entries can not be recorded in any other subsidiary book.
6.	False: An individual transaction of Purchase Book is posted to the credit of Individual Supplier's A/c.
7.	False: Purchases A/c in the ledger shows all purchases of goods (whether cash or on credit).
8.	False: The Credit Notes are used to prepare Sales Returns Book.
9.	False: Where Cash Book, Purchases Book, Sales Book, Purchases Returns Book, Sales Returns Book, Bill Receivable Book and Bill Payable Book are maintained, Journal is also required to be maintained for transactions which can not be recorded in any other subsidiary book.
10.	False: Purchases Returns Book is used to record return of goods purchased on credit.
11.	False: Sales Returns Book is used to record return of goods sold on credit.
12.	False: When a customer returns the goods, a credit note is sent to him.
13.	False: When the goods are returned to a supplier, a debit note is sent to him.

14.	False: Purchase of a fixed asset on credit is recorded in Journal Proper.
15.	False: The allowance made for prompt payment is called Cash Discount.
16.	False: The total of Purchases Returns Book is posted to the credit of Purchases Returns Account.

CHAPTER 6 - BANK RECONCILIATION STATEMENT

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Bank reconciliation statement is prepared to arrive at the bank balance.
[Dec. 1993, May 1995, Nov. 1997, Nov. 2000, May 2002 and Nov. 2004]
2. Interest charged by the bank will be deducted, when the overdraft as per the cash book is the starting point for making the bank reconciliation statement. *[Nov. 1996 and May 1997]*
3. If the balance as per cash book and pass book are the same, there is no need to prepare a reconciliation statement. *[May 2003]*
4. Direct collection received by the bank on behalf of its customers will increase the balance as per the Bank Pass Book as compared to the balance as per the Cash Book.
5. The interest charged by Banker to customer on overdrawn account is called Red in interest. *[Nov. 2005]*
6. While preparing a BRS taking the balance as per pass book as starting point undercast of bank (debit) column of Cash Book is added.
7. While preparing a BRS taking the balance as per cash book as starting point wrong credit in pass book is subtracted..
8. Amended Cash Book is prepared by passing Rectifying Entries in respect of errors committed in Cash Book and Pass Book.
9. While preparing a BRS taking balance as per Amended Cash Book, Uncollected Cheques, Unpresented Cheques and all items which appear only in Pass Book are considered.
10. In Balance Sheet bank balance as per unamended cash book appears and not as per Pass Book.
11. Bank Reconciliation Statement is a part of Cash Book.
12. Bank Reconciliation Statement is prepared by a Bank.
13. Credit balance in Pass Book means overdraft.
14. A debit balance of Rs.1,000 has been brought forward as a credit balance of Rs.100 on the next page in the Pass Book. Rs.900 should be added to the balance as per Pass Book in order to ascertain the balance as per Cash Book.
15. A Bank Reconciliation statement is prepared to reconcile the Cash Balance as per Cash Book with Bank Balance as per Pass Book.
16. The Pass Book is a copy of the Bank column of Cash Book of the account holder.

17. When balance as per Cash Book is the starting point, unpresented cheques are subtracted.
18. When balance as per Pass Book is the starting point, uncollected cheques are subtracted.
19. When balance as per Pass Book is the starting point, direct deposits by customers into the bank are added.

ANSWERS:

S. No.	Reason
1.	False: Bank reconciliation statement is prepared <i>to reconcile</i> and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.
2.	False: Interest charged by the bank will be added because this charge when accounted for, will increase the overdraft (credit balance) as shown by the cash book.
3.	False: Bank reconciliation statement is prepared to find out the causes of difference in individual items of cash book and pass book even if the balance as per cash book and pass book are same.
4.	True: Because unless the customer is informed and records in the cash book, the balance as per Cash Book will remain lower as compared to Bank Balance as per Pass Book.
5.	False: Interest charged by banker to customer on overdrawn account is called 'interest on overdraft' whereas 'red-ink interest' is applied in account current if the due date of a bill falls after the date of closing the account. The red-ink interest is treated as negative interest.
6.	False: While preparing a BRS taking the balance as per pass book as starting point undercast of bank (debit) column of Cash Book is subtracted.
7.	False: While preparing a BRS taking the balance as per cash book as starting point wrong credit in pass book is added.
8.	False: Amended Cash Book is prepared by passing Rectifying Entries in respect of errors committed in Cash Book and by passing Adjusting Entries in respect of correct items which appear only in Pass Book.
9.	False: While preparing a BRS taking balance as per Amended Cash Book Uncollected Cheques, Unpresented Cheques and Wrong Entry only in Pass Book are considered.
10.	False: In Balance Sheet bank balance as per amended cash book appears and not as per Pass Book.
11.	False: Bank Reconciliation Statement is not a part of Cash Book.

12.	False: Bank Reconciliation Statement is prepared by a Account holder.
13.	False: Credit balance in Pass Book means clear balance.
14.	False: A debit balance of Rs.1,000 has been brought forward as a credit balance of Rs.100 on the next page in the Pass Book. Rs.1,100 should be subtracted from the balance as per Pass Book is order to ascertain the balance as per Cash Book.
15.	False: A Bank Reconciliation statement is prepared to reconcile the Bank Balance as per Cash Book with Bank Balance as per Pass Book.
16.	False: The Pass Book is a copy of the Bank Account of account holder in bank books.
17.	False: When balance as per Cash Book is the starting point, unpresented cheques are added.
18.	False: When balance as per Pass Book is the starting point, uncollected cheques are added.
19.	False: When balance as per Pass Book is the starting point, direct deposits by customers into the bank are subtracted.

CHAPTER 7 - TRIAL BALANCE, ERRORS AND THEIR RECTIFICATION

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason)

1. A tallied trial balance means that the books of accounts contain no errors.
 or
 A tallied Trial balance is a conclusive proof of accuracy of books of accounts.
2. Errors of principle will affect trial balance. [June 1993]
3. Errors of principle involves an incorrect allocation of expenditure or receipt between capital and revenue.
[May 1997, May 1998, Nov. 2000 and May 2002]
4. Any type of error affects the agreement of trial balance. [Nov. 1995]
5. Wrong casting of subsidiary books does not affect the trial balance. [June 1994 and Nov. 2002]
6. If the amount is posted in the wrong account or it is written on the wrong side of an account, it is called an error of commission. [Dec. 1993 and May 1999]
7. Under or over-casting of a subsidiary book is an example of error of commission. [Nov. 2004]
8. Purchase of office furniture has been debited to general expenses account. It is a compensating error.
[May 1996]
9. A tallied trial balance will not reveal compensating errors and errors on account of wrong balancing.

[May 1995, May 1998 and May 2001]

10. Error of carry-forward of totals of purchase journal affects two accounts.[Nov. 1996]
11. Travelling expenses of Rs.80,000 paid to a technician for the installation of a new machine is debited to a profit and loss account. [May 2000]
12. Errors of complete omission will be located, if trial balance is prepared.[Nov. 2002]
13. Rectification of mistakes is necessary to tally the trial balance.[June 1993, Nov. 1994, May 2005]
14. Rectifying errors in subsequent accounting period always affects the profit or loss of that period. [Nov. 2004]
15. Salary paid to Ram will be debited to Ram's Personal account. [Nov. 2005]
16. A trial balance will reveal all errors of commission .
17. A trial balance will reveal all errors of posting.
18. The object of opening Suspense Account is to avoid the delay in preparation of Trial Balance.
19. The balance of Suspense A/c represents the net effect of all errors whether detected or not.
20. After the preparation of financial statements, Profit & Loss Adjustment Account is used to rectify all errors involving Real & Personal A/cs in the subsequent year so as not to affect the Profit / Loss of that period.
21. The preparation of a Trial Balance helps in locating errors of complete omission.
22. Freight Inward Account shows a debit balance but a Freight Outward Account shows a credit balance.
23. Errors of recording in the books of original entry will affect the Trial Balance.
24. Correct recording in the Journal Proper but not posted in the ledger at all will affect the Trial Balance.
25. Trial Balance is prepared for a particular period which may be a week, month, quarter, half year or year.
26. When some of the errors affecting the Trial Balance are located and rectified, the Suspense Account automatically stands balanced.
27. The difference in the Trial Balance is transferred on the debit side of the Suspense Account if the total of debit column of the Trial Balance exceeds that of credit column .
28. Trial Balance is prepared after preparing the Profit & Loss Account.

ANSWERS:

S. No.	Reason
1.	False: Agreement of trial balance is not an absolute proof of the accuracy, because there may be some errors like errors of principle, compensating errors etc. which do not affect the agreement of trial balance.

2.	False: Errors of principle will not affect trial balance because both the aspects (debit & credit) of a transaction are recorded. Error of Principle involves incorrect allocation of payments/receipts between capital and revenue.
3.	True: Recording the transaction in a <i>fundamentally incorrect manner in contravention of accounting principles is an error of principle</i> .
4.	False: Every error does not affect the agreement of trial balance. For example: Errors of Principle, compensating errors do not affect the agreement of trial balance.
5.	False: Wrong casting of subsidiary books affects the trial balance. For example, if Purchase Book is undercast by Rs.1,000, the total of debit column will be lower by Rs.1,000.
6.	True: Errors of commission includes errors on account of wrong posting, wrong balancing of an account, wrong carry forward, wrong casting etc., whether of subsidiary books or any other books.
7.	True: Errors of commission includes errors on account of wrong posting wrong balancing of an account, wrong carry forward, wrong casting etc., whether of subsidiary books or any other books.
8.	False: It is an error of principle because an item of capital nature has been treated as an item of revenue nature.
9.	Partly True, Partly False: A tallied trial balance will not reveal compensating errors as it will agree inspite of the existence of these errors. However, in the case of errors on account of wrong balancing, the trial balance will not tally. However, the statement will be true in the limited cases where the errors on account of wrong balancing get fully compensated.
10.	False: It will affect only one account i.e. purchases account and hence it will affect the agreement of trial balance.
11.	False: Such expenses being a capital expenditure should be debited to Machinery Account.
12.	False: Such errors cannot be located because both debit and credit aspects of an entry are not recorded and hence it will not affect trial balance.
13.	False: The trial balance can be tallied by debiting or crediting the difference amount to suspense account. However, rectification of mistakes is necessary to have a proper accounting of transactions and if all errors are located and rectified then there is no reason for disagreement of trial balance.
14.	False: Rectifying errors involving Real & Personal Accounts will not affect the profit of that period.
15.	False: Salary paid to Ram will be debited to Salaries account.

16.	False: A trial balance will reveal all errors of commission other than error of recording and error of posting involving to wrong account on correct side with correct amount.
17.	False: A trial balance will not reveal errors of posting involving to wrong account on correct side with correct amount.
18.	False: The object of opening Suspense Account is to avoid the delay in preparation of Financial Statements.
19.	False: The balance of Suspense A/c represents the net effect of errors which still remain undetected.
20.	False: After the preparation of financial statements, Profit & Loss Adjustment Account is used to rectify all errors involving Nominal A/c in the subsequent year so as not to affect the Profit / Loss of that period.
21.	False: The preparation of a Trial Balance helps in locating one sided errors of commission.
22.	False: Freight Inward Account shows a debit balance but a Freight Outward Account shows a debit balance.
23.	False: Errors of recording in the books of original entry will not affect the Trial Balance.
24.	False: Correct recording in the Journal Proper but not posted in the ledger at all will not affect the Trial Balance.
25.	False: Trial Balance is prepared at a particular date.
26.	False: When all the errors affecting the Trial Balance are located and rectified, the Suspense Account automatically stands balanced.
27.	False: The difference in the Trial Balance is transferred on the credit side of the Suspense Account if the total of debit column of the Trial Balance exceeds that of credit column .
28.	False: Trial Balance is prepared before preparing the Profit & Loss Account.

CHAPTER 8 - CAPITAL AND REVENUE EXPENDITURE

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

- Pre-operative expenses are revenue expenses. *[June 1993]*
- An expenditure intended to benefit the current period is a revenue expenditure. *[June 1994, Nov. 1997 and Nov. 2002]*
- Expenditure which results in acquisition of a permanent asset is a capital expenditure. *[May 1995, Nov. 1997, Nov. 2000 and Nov. 2001]*
- Deferred revenue expenditure is current year's revenue expenditure to be paid in the later years.

[Nov. 1994 and Nov. 2002]

5. Heavy expenditure incurred on advertisement at the time of introducing a new product is a deferred revenue expenditure. [June 1993]

6. Expenses incurred to keep the machine in working condition is a capital expenditure. [Dec. 1993]

7. Wages paid to workers to produce a tool to be captively consumed is capital expenditure.

[Nov. 1994, May 1998]

8. Amount paid for acquiring goodwill is deferred revenue expenditure. [Nov. 1995 and Nov. 2002]

9. Overhaul expenses of a second-hand machinery purchased are revenue expenditure. [May 1996 and Nov. 1996]

10. Amount spent for replacement of worn out parts of a machine is a capital expenditure. [May 1999]

11. Expenditure incurred on white washing of factory building done after every six months is revenue expenditure. [May 1999]

12. Amounts written off from the cost of fixed assets is capital expenditure. [Nov. 1994]

13. Legal fees paid to acquire a property is capital expenditure. [Nov. 1999, Nov. 2002 and Nov. 2004]

14. Expenditure on renovation of a theatre which has increased the seating capacity by 10% is deferred revenue expenditure. [May 2000]

15. Temporary shed put up at project site to house materials is a capital expenditure. [Nov. 1999]

16. Overhauling expenses of Rs.25,000 for the engine of a motor car to get better fuel efficiency are revenue expenses.

17. Inauguration expenses of Rs.25 lacs incurred on the opening of a new manufacturing unit in an existing business are capital expenditure.

18. Compensation of Rs.2.5 crores paid to workers, who opted for voluntary retirement in capital expenditure.

19. Amount paid to Management company for consultancy to reduce the working expenses is revenue expenditure. [May 2005]

20. Wages incurred by a factory in manufacturing a part for its plant, is a revenue expense. [Nov. 2005]

21. The classification of expenditures and receipts each into Capital and Revenue is as per Accrual Principle.

22. Sale of land & buildings by a real estate dealer is a Capital receipt.

23. Expenditure incurred on repairs and whitewashing at the time of purchase of an old building in order to make it useable is a Revenue Expenditure.

24. Expenditure incurred to provide one more exit in a cinema hall in compliance with a government order is a Revenue Expenditure.

25. Registration fees paid at the time of purchase of a building is a Revenue Expenditure.
26. Expenditure incurred on the maintenance of a tea garden which will produce tea after four years is a Revenue Expenditure.
27. The expenditure incurred in erecting a platform on which a machine will be fixed is a Revenue Expenditure.
28. Advertising expenditure, the benefits of which a machine will last for five years is a Revenue Expenditure.
29. Cost of Rs.80,000 for dismantling, removing and reinstalling plant by a Cotton mill incurred in connection with the removal of works to a more suitable locality is a Capital Expenditure.
30. A sum of Rs.50,000 spent for alternation of existing plant incorporating thereby new devices which could affect substantial reduction in power consumption is a Revenue Expenditure.
31. Imported goods worth Rs.1,00,000 confiscated by Customs Authorities for non-disclosure of material facts is a capital loss.
32. Expenditure of Rs.20,000 for advertisement in newspapers is a Capital Expenditure.
33. Expenditure of Rs.30,000 on neon-sign board at the airport is a Revenue Expenditure.
34. Spent Rs.50,000 for remodeling the factory is a Capital Expenditure and the value of factory is enhanced by Rs.20,000.
35. Rs.1,00,000 spent on renewal fee of patent rights is a Capital Expenditure.
36. Expenses incurred in connection with obtaining a licence for starting the Factory are Revenue Expenditure.
37. Rings and Pistons of an engine were changed at a cost of Rs.5,000 to get fuel efficiency. This is Revenue Expenditure.
38. Rs.2,00,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff. The suit was not successful. This is Capital Expenditure
39. 71,00,000 paid as compensation to the two employees who were retrenched is a Capital Expenditure.
40. Rs.10,000 Customs Duty paid on import of a machinery for modernisation of the factory production during the current year is a Revenue Expenditure.
41. Rs.5,000 paid on Import Duty for purchase of Raw Materials is a Capital Expenditure.
42. Rs.12,000 Interest had accrued during the year on term loan obtained and utilised for the construction of factory Building and purchase of machineries, however the production has not commenced till the last date of the accounting year .It is a Revenue Expenditure.
43. Any expenditure which is unreasonably large is capital expenditure.
44. Premium received on issue of shares is a revenue receipt.

ANSWERS:

S.No.	Reason
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1.	False: Pre-operative expenses are incurred prior to commencement of commercial production and hence are generally capitalized.
2.	True: Revenue expenditure is that expenditure the benefit of which does not extend beyond the current accounting period.
3.	True: Expenditure which result in acquisition of a permanent asset is a capital expenditure since it will generate enduring benefits and help in revenue generation over more than one accounting period.
4.	False: Deferred revenue expenditure is that expenditure for which payment has been made or a liability has been incurred during current year but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods.
5.	True: It is considered as deferred revenue expenditure because its benefit would accrue over a subsequent period or periods.
6.	False: It is a revenue expenditure because it is not increasing the benefits but only keeping the machine in working condition.
7.	True: Wages paid to workers for the creation of an asset to be used in the business is capital expenditure.
8.	False: Amount paid for acquiring goodwill is capital expenditure because it involves acquisition of an intangible asset which is classified as fixed asset.
9.	False: Such expenses are capital expenditure because these are incurred to put secondhand machinery in good/working condition to derive long term benefits of enduring nature.
10.	False: Amount spent for replacement of any worn out part of a machine is revenue expenditure because it is part of its maintenance cost.
11.	True: These expenses are revenue expenditure because these are incurred in the course of normal maintenance of the asset.
12.	False: Amount written off from the cost of fixed assets is treated as revenue expenditure and charged to profit and loss account. Depreciation is an example of such write-off.
13.	True: Legal fees paid to acquire a property is a part of the cost of that property. Hence it is taken as capital expenditure.
14.	False: It is a capital expenditure because it has increased the revenue earning capacity of the business over more than one accounting period.
15.	True: Temporary shed put up at a project site to house materials is incidental to the main construction and the expenditure on it, is a part of construction cost and hence, it is a capital expenditure.

16.	False: These expenses should be capitalised because these are incurred for the engine of a motor car to derive better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in form of endurable long term advantage.
17.	False: Such expenses are revenue expenditure because such expenditure may not generate any enduring benefit to the business over more than one accounting period.
18.	False: Such compensation is revenue expenditure. Since the magnitude of the amount of expenditure is very significant, it may be better to treat it as deferred revenue expenditure.
19.	False: Amount paid to management company for consultancy to reduce the working expenses is deferred revenue expenditure as this expenditure will generate long-term benefit to the entity.
20.	False: Wages incurred by a factory in manufacturing a part of its plant, is a capital expenditure. This expenditure will be included in the cost of plant.
21.	False: The classification of expenditures and receipts each into Capital and Revenue is as per Going Concern Principle.
22.	False: Sale of land & buildings by a real estate dealer is a Revenue receipt and not a Capital receipt.
23.	False: Expenditure incurred on repairs and whitewashing at the time of purchase of an old building in order to make it useable is a Capital Expenditure.
24.	False: Expenditure incurred to provide one more exit in a cinema hall in compliance with a government order is a Capital Expenditure.
25.	False: Registration fees paid at the time of purchase of a building is a Capital Expenditure.
26.	False: Expenditure incurred on the maintenance of a tea garden which will produce tea after four years is a Deferred Revenue Expenditure.
27.	False: The expenditure incurred in erecting a platform on which a machine will be fixed is a Capital Expenditure.
28.	False: Advertising expenditure, the benefits of which a machine will last for five years is a Deferred Revenue Expenditure
29.	False: Cost of Rs.80,000 for dismantling, removing and reinstalling plant by a Cotton mill incurred in connection with the removal of works to a more suitable locality is a Revenue Expenditure.
30.	False: A sum of Rs.50,000 spent for alternation of existing plant incorporating thereby new devices which could affect substantial reduction in power consumption is a Capital Expenditure

31.	False: Imported goods worth Rs.1,00,000 confiscated by Customs Authorities for nondisclosure of material facts is a revenue loss.
32.	False: Expenditure of Rs.20,000 for advertisement in newspapers is a Revenue Expenditure.
33.	False: Expenditure of Rs.30,000 on neon-sign board at the airport is a Capital Expenditure.
34.	False: Rs.20,000 for remodelling the factory is a Capital Expenditure and the balance Rs.30,000 is a Revenue Expenditure.
35.	False: Rs.1,00,000 spent on renewal fee of patent rights is a Revenue Expenditure.
36.	False: Expenses incurred in connection with obtaining a licence for starting the Factory are Capital Expenditure.
37.	False: Rings and Pistons of an engine were changed at a cost of Rs.5,000 to get fuel efficiency. This is Capital Expenditure
38.	False: Rs.2,00,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff. The suit was not successful. This is Revenue Expenditure
39.	False: Rs.1,00,000 paid as compensation to the two employees who were retrenched is a Revenue Expenditure.
40.	False: Rs.10,000 Customs Duty paid on import of a machinery for modernisation of the factory production during the current year is a Capital Expenditure.
41.	False: Rs.5,000 paid on Import Duty for purchase of Raw Materials is a Revenue Expenditure.
42.	False: It is a Capital Expenditure.
43.	False: Any expenditure which is unreasonably large need not be capital expenditure. For example, Rs.20,00,000 paid as arrears of salaries & wages will be Revenue Expenditure although the amount is large.
44.	False: Premium received on issue of shares is a capital receipt.

CHAPTER 9 - DEPRECIATION

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

- Depreciation is an amortised expenditure. *[June 1993]*
- Depreciation is a process of allocation of the cost of fixed asset. *[Nov. 2003]*
- Depreciable amount refers to the difference between historical cost and the market value of an asset.

[May 2004]

4. Depreciation cannot be provided in case of loss, in a financial year. [A/ov. 1994 and Nov. 1997]
5. Depreciation is a cash expenditure like other normal expenses. [Nov. 2002]
6. Land is also a depreciable asset. [May 2001]
7. Providing depreciation ensures sufficient cash for asset replacement. [Dec. 1993]
8. Reducing balance method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together. [June 1993]
9. Depreciation can be charged on Goodwill by Fixed Instalment Method [May 2006]
10. Depletion refers to economic deterioration of natural resources like ore deposits in mines, oil wells.
11. Amortization refers to the physical deterioration of intangible assets like Goodwill, Patents, Copy Rights.
12. Obsolescence refers to physical deterioration by change in technology or taste or fashion.
13. Depreciation Accounting is the process of valuation and not allocation.
14. If market value of a fixed asset is higher than its cost .then Depreciation need not be provided.
15. Depreciation is non-cash and non- operating expense which is to be provided for if there are profits.
16. Providing depreciation in the accounts reduces the amount of cash profits .
17. Fixed Assets are stated in the Balance Sheet at their market value.
18. There exists difference between the Written Down Value Method and Diminishing Balance Method of Depreciation.
19. The expressions—depreciation is to be charged at 10% and 10% p.a. on furniture carry the same meaning.
20. M/s Ram & Co need not provide any depreciation on Plant & Machinery as its market value (Rs.10,00,000) is much higher than the cost of purchase (Rs.9,00,000).
21. Straight Line Method of Depreciation is followed to have a uniform charge for depreciation and Repairs & Maintenance together.

ANSWERS:

S.No.	Reason
1.	True: Depreciation is charged on value of fixed assets over their useful life. Thus, by way of depreciation charge, capital expenditure is amortised over the useful life of depreciable asset.
2.	True: Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset.
3.	False: Depreciable amount refers to historical cost less estimated salvage values.

4.	False: Depreciation being a charge against profit has to be provided for whether there is profit or loss in a financial year.
5.	False: Depreciation is non-cash expenditure because it does not involve any cash outflow.
6.	False: Land is not a depreciable asset because its useful life is not limited to few years.
7.	False: Providing depreciation <i>does not necessarily</i> ensure sufficient cash for asset replacement especially under inflationary conditions.
8.	True: In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new but depreciation charge is high. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously but depreciation charge reduces continuously. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.
9.	True: Depreciation can be charged on goodwill by fixed instalment method because fixed instalment method is suitable where the risk of obsolescence is less.
10.	False: Depletion refers to physical deterioration of natural resources like ore deposits in mines, oil wells.
11.	False: Amortization refers to the economic deterioration of intangible assets like Goodwill, Patents, Copy Rights.
12.	False: Obsolescence refers to economic deterioration by change in technology or taste or fashion.
13.	False: Depreciation Accounting is the process of allocation and not valuation.
14.	False: Depreciation needs be provided since Depreciation is not concerned with the Fluctuations in market price.
15.	False: Depreciation is non-cash but operating expense which is to be provided for whether there are profits/ losses.
16.	False: Providing depreciation in the accounts does not reduce the amount of cash profits .
17.	False: Fixed Assets are stated in the Balance Sheet at their cost less depreciation.
18.	False: There does not exist any difference between the Written Down Value Method and Diminishing Balance Method of Depreciation.
19.	False: The expressions—depreciation is to be charged at 10% and 10% p.a. on furniture do not carry the same meaning. Depreciation at 10% means charge depreciation without reference to time but Depreciation at 10% p.a. means charge depreciation with reference to time

20.	False: M/s Ram & Co must provide depreciation since depreciation is not affected by fluctuations in the market value .
21.	False: Reducing Balance Method of Depreciation is followed to have a uniform charge for depreciation and Repairs & Maintenance together.

CHAPTER 10 - INVENTORY VALUATION

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Finished goods are normally valued at cost or market price which ever is higher.
[June 1994, May 1995 and Nov. 2001]
2. The inventory under AS-2 is valued on the basis of cost price or current replacement cost, which
ever is less. [A/ov. 2004, Nov. 2005]
3. Damaged inventory should be valued at cost or market price, which ever is lower. [May 2004]
4. Inventory of by-products, should be valued at net realisable value where cost of by-products
can be separately determined. [Nov 2003]
5. Periodic Inventory System is a method of recording inventory balances after each issue and receipt.
6. Inventories include Stock of Materials, Work-in-Progress and Finished Goods, Maintenance Supplies, Consumables, Loose Tools and Machinery Spares.
7. Cost of Conversion consists of Direct Labour, Direct Expenses, Sub-Contracted Work and Production Overheads as per Marginal Costing Method.
8. The Cost of Inventories includes:
 - (i) Abnormal amounts of wasted material labour or other production cost.
 - (ii) Storage Cost.
 - (iii) Administrative Overheads.
 - (iv) Selling and Distribution Cost.
9. As per AS-2 'Valuation of Inventories', the historical cost of inventories should normally be determined by FIFO (First In First Out), LIFO and Weighted Average Cost Formula.
10. As per AS-2, the historical cost of manufactured Inventories should be arrived at by Marginal costing.
11. As per AS-2, the historical cost may be compared with Net Realizable Value (NRV) by item by item method only.
12. As per AS-2, the Inventory of Raw Materials is valued at Cost or NRV whichever is lower.
13. As per AS-2, the inventory of Materials and other Supplies is valued at Cost or NRV whichever is lower even if Finished Products are expected to be sold at or above cost.

14. If Closing Stock is understated, the Cost of Goods sold will increase but Profit and Current Assets will decrease.
15. Under inflationary conditions, LIFO method will show Lower Cost of Goods Sold, higher income and Higher value of Closing Stock.
16. Cost of Unsold Goods lying with others on our behalf (e.g. Cost of Goods Sent on Approval Basis/ Consignment Basis/ Joint Venture Basis) should not form part of our Closing Stock at Balance Sheet Date.
17. In Balance Sheet Stock as per physical verification as on date of balance sheet appears.

ANSWERS:

S. No.	Reason
1.	False: Finished goods are normally valued at cost or net realisable value which ever is lower.
2.	False: According to AS-2 on Valuation of Inventories, inventory is valued at the lower of historical cost and net realisable value.
3.	False: Damaged inventory should be valued at net realisable value.
4.	False: Inventory of by-products, should be valued at net realisable value where cost of by-products <i>cannot</i> be separately determined.
5.	False: Perpetual Inventory System is a method of recording inventory balances after each issue and receipt.
6.	False: Inventories include Stock of Materials, Work-in-Progress and Finished Goods, Maintenance Supplies, Consumables and Loose Tools but does not include Machinery Spares.
7.	False: Cost of Conversion consists of Direct Labour, Direct Expenses, Sub-Contracted Work and Production Overheads as per Absorption Costing Method.
8.	False: The Cost of Inventories excludes: <ol style="list-style-type: none"> (i) Abnormal amounts of wasted material labour or other production cost. (ii) Storage Cost. (iii) Administrative Overheads. (iv) Selling and Distribution Cost.
9.	False: As per AS-2 'Valuation of Inventories', the historical cost of inventories should normally be determined by FIFO (First In First Out) and Weighted Average Cost Formula.
10.	False: As per AS-2, the historical cost of manufactured Inventories should be arrived at by absorption costing.

11.	False: As per AS-2, the historical cost may be compared with Net Realizable Value (NRV) by item by item method or group of items method.
12.	False: As per AS-2, the Inventory of Finished Goods is valued at Cost or NRV whichever is lower.
13.	False: As per AS-2, the inventory of Materials and other Supplies is not written down below Cost if Finished Products are expected to be sold at or above cost.
14.	False: If Closing Stock is understated, the Cost of Goods sold will decrease but Profit and Current Assets will increase.
15.	False: Under inflationary conditions, FIFO method will show Lower Cost of Goods Sold, higher income and Higher value of Closing Stock.
16.	False: Cost of Unsold Goods lying with others on our behalf (e.g. Cost of Goods Sent on Approval Basis/ Consignment Basis/ Joint Venture Basis) should form part of our Closing Stock at Balance Sheet Date.
17.	False: In Balance Sheet Stock as per books appears and not Stock as per physical verification.

CHAPTER 11 - FINANCIAL STATEMENTS

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason)

1. Fixed cost remain relatively unaffected in a defined period of time. [Dec. 1993]
2. Current cost gives an alternative measurement base. [Nov. 1999]
3. Net profit is reflected in higher cash balances and net loss is reflected in lower net worth. [Dec. 1993]
4. Profit and loss account shows the financial position of the concern. [Dec. 1993, Nov. 1994, Nov. 1997]
5. A profit and loss account is a point statement whereas a balance sheet is a period statement. [May 1995]
6. Fixed assets are stated in the balance sheet at their market value. [Nov. 1994]
7. Trial balance is prepared after preparing the profit and loss account. [Nov. 1995]
8. The provision for discount on debtors is calculated before deducting the provision for doubtful debts from debtors. [Nov. 1995, May 1998, Nov. 2002 and Nov. 2004]
9. Provision for doubtful debts is debited to sundry debtors account. [May 2000]
10. The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business. [May 1997 and Nov. 2000]

11. Freight and cartage expenses paid on purchases of goods is added to the amount of purchase.
[May 1998 and Nov. 2000]
12. The debit balance in the profit & loss account is surplus. *[May 2001]*
13. Debit balance of profit and loss account is a real asset. *[Nov 2002]*
14. Assets and Liabilities of a particular accounting period are shown in the balance sheet.
[Nov 2002 of Foundation]
15. Under the 'liquidity approach' assets which are most liquid are presented at the bottom of the balance sheet. *[Nov 2002]*
16. The value of human resources is generally shown as asset in the Balance Sheet.
[May 2003]
17. A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense. *[June 1994]*
18. The proprietor of a shop feels that he has made a loss due to closing stock being zero.
[May 1995 and Nov 1997]
19. Marshalling and Grouping has the same meaning.
20. Sundry Debtors are liquid assets. *[May 2006]*
21. Closing stock will never appear in the trial. *[May 2006]*
22. Income Statement is prepared to ascertain the financial position but Balance Sheet is prepared to ascertain financial performance at the end of a given accounting period.
23. Income Statement is prepared on the basis of closing entries relating to Nominal and Real Accounts but Balance Sheet is prepared on the basis of balances of Real and Nominal Accounts.
24. Gross Profit means excess of all revenue over all expenses.
25. Operating Profit means excess of operating revenues over all expenses and losses.
26. Net Profit means excess of all operating revenues over all expenses and losses.
27. Depreciable fixed assets are valued at Cost.
28. Current assets are usually valued at Net Realizable Value or Cost whichever is higher.
29. Under order of liquidity the most liquid assets is shown last and least urgent payment is shown first.
30. The company as defined under Companies Act, 2013 prepares Balance Sheet in the Order of liquidity.
31. Banking and finance companies, and sole proprietorships prepare their balance sheets in the Order of Permanence.
32. Under order of performance least liquid asset is shown last and most urgent payment is shown first.
33. In Trading Account Returns having debit balance and credit balance are shown by way of deduction from amount of purchases and sales respectively.

34. If Closing Stock, Outstanding Expenses, Prepaid Expenses and Accrued Income and Unaccrued Income appear inside the Trial Balance, these appear only in Income Statement and not in the Balance Sheet.
35. If Depreciation, Interest on Capital, Interest on Drawings appear inside the Trial Balance, these will appear in only in the Balance Sheet and not in Income Statement.
36. Provision for Doubtful Debt is calculated after deducting additional bad debts and additional discount appearing outside the trial balance and Provision for Discount on Debtors.
37. If opening entry and adjusting entries are not passed both trial balance and balance sheet will not be tallied.
38. Reserve for Discount on Creditors has credit balance.
39. Bank Account, Provision for Doubtful Debts, Provision for Discount on Debtors, Reserve for Discount on Creditors, Provision for Depreciation are Nominal Accounts.
40. Bills Receivable Account and Bills Payable Account are Real Accounts.
41. Prepaid Insurance, Accrued Interest, Commission received in advance and Closing Stock are Nominal Accounts.
42. Manufacturing A/c is prepared by an enterprise engaged in trading Activities.
43. Manufacturing A/c is prepared to ascertain the cost of goods sold.
44. Manufacturing A/c is closed by transferring its balance to the credit of Profit & Loss A/c.
45. Opening and Closing Stock of Raw Materials, Work in Progress and Finished Goods are considered while preparing Manufacturing A/c.
46. A Balance Sheet is a statement of assets and liabilities of an enterprise for a particular accounting period.
47. The most liquid asset is shown first and the most urgent payment to be made is shown last in order of liquidity.
48. The least liquid asset is shown first and the least urgent payment to be made is shown last in order of permanence.
49. Contingent liability is an ascertained liability but its amount and due date are indeterminate.
50. Deferred revenue expenditure is current year's expenditure to be paid in future year.

ANSWERS

S. No.	Reason
1.	True: Fixed costs represent that part of cost of production which, by its very nature, remain relatively unaffected in a defined period of time provided there is no <i>change in the level of production</i> and there is <i>no change in factor prices</i> .

2.	True: Current cost is another alternative of measurement basis according to which assets are carried at the amount at which the same or an equivalent asset can be acquired currently. This is used under Current Cost Accounting. Historical Cost is used under Historical Cost Accounting.
3.	False: Net profit may not be reflected in higher cash balance because of credit transactions. On the other hand, cash may increase because of fresh loan or fresh capital. Net worth is the sum of capital, reserves and profit and loss account balance. Net worth is reduced by net loss. But net worth may also be reduced by withdrawal by the proprietor/partners. So lower net worth may not necessarily reflect net loss.
4.	False: Profit and loss account shows the financial performance of a concern for a particular accounting period.
5.	False: A profit and loss account is a periodic statement and a balance sheet is a point statement.
6.	False: Fixed assets are stated in the balance sheet <i>at cost less depreciation</i> .
7.	False: Trial balance is prepared before preparing the profit and loss account.
8.	False: The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.
9.	False: Provision for doubtful debts is debited to profit and loss account. In the balance sheet, it is shown as deduction from 'Debtors'.
10.	True: The profit on sale of capital assets should not be added to ascertain the true net profit of a business because it is not due to normal business operations.
11.	True: As per AS-2 Freight paid to bring the goods purchased into the business premises/ factory are included in the 'cost of purchase'. Alternatively , the statement may be taken as 'false' since for accounting purposes, these expenses are not added to the amount of purchases but are shown separately in the trading account.
12.	False: The debit balance in the Profit and Loss account is deficit or loss because expenses are more than revenues.
13.	False: Debit balance of profit and loss account is a fictitious asset .
14.	False: Assets and Liabilities at a particular date are shown in the Balance Sheet.
15.	False: Under the 'liquidity approach' assets which are most liquid are presented first .
16.	False: It is not shown in the balance sheet as per money measurement concept because it cannot be measured in monetary terms.
17.	False: Such Cash withdrawal should be treated as drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

18.	False: The level of closing stock does not directly determine the profits of a business. The operational efficiency and other factors affecting cost determine the profits. The whole stock might have been sold out.
19.	False: The term ' <i>Grouping</i> ' means putting together items of a similar nature under a common heading. For example, under the heading Trade Creditors' the balances of the ledger accounts of all the suppliers from whom goods have been purchased on credit, will be shown. The term ' <i>Marshalling</i> ' refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be shown <i>either</i> in the order of liquidity or in the order of permanency.
20.	True: Sundry debtors are liquid assets because these are readily convertible into cash.
21.	False: Closing stock may appear in the trial balance if an adjusting entry relating to closing stock has already been passed. If closing stock appears in trial balance it will appear only on the asset side of the Balance Sheet.
22.	False: Income Statement is prepared to ascertain the Financial performance for a given accounting period but Balance Sheet is prepared to ascertain financial Position at the end of a given accounting period.
23.	False: Income Statement is prepared on the basis of closing entries relating to Nominal Accounts but Balance Sheet is prepared on the basis of balances of Real and Personal Accounts.
24.	False: Gross Profit means excess of operating revenue over direct operating expenses.
25.	False: Operating Profit means excess of operating revenues over operating expenses and losses.
26.	False: Net Profit means excess of all revenue (whether operating or non-operating) over expenses and losses (whether operating or non-operating).
27.	False: Depreciable fixed assets are valued at Cost less Depreciation.
28.	False: Current assets are usually valued at Net Realizable Value or Cost whichever is lower.
29.	False: Under order of liquidity the most liquid assets is shown first and least urgent payment is shown last.
30.	False: The company as defined under Companies Act, 2013 prepares Balance Sheet in the Order of Permanence.
31.	False: Banking and finance companies, and sole proprietorships prepare their balance sheets in the order of liquidity

32.	False: Under order of performance least liquid asset is shown first and most urgent payment is shown last.
33.	False: In Trading Account Returns having debit balance and credit balance are shown by way of deduction from amount of sales and purchases respectively.
34.	False: If Closing Stock, Outstanding Expenses, Prepaid Expenses and Accrued Income and Unaccrued Income appear inside the Trial Balance, these appear only in the Balance Sheet and not in Income Statement.
35.	False: If Depreciation, Interest on Capital, Interest on Drawings appear inside the Trial Balance, these will appear in Income Statement and not in the Balance Sheet.
36.	False: Provision for Doubtful Debt is calculated after deducting additional bad debts and additional discount appearing outside the trial balance but before deducting Provision for Discount on Debtors
37.	False: If opening entry and adjusting entries are not passed both trial balance and balance sheet will be tallied.
38.	False: Reserve for Discount on Creditors has debit balance.
39.	False: Bank Account, Provision for Doubtful Debts, Provision for Discount on Debtors, Reserve for Discount on Creditors, are Personal Accounts but Provision for Depreciation is Real Account.
40.	False: Bills Receivable Account and Bills Payable Account are Personal Account.
41.	False: Prepaid Insurance, Accrued Interest, Commission received in advance are Personal Accounts but Closing Stock is Real Account.
42.	False: Manufacturing A/c is prepared by an enterprise engaged in Manufacturing Activities.
43.	False: Manufacturing A/c is prepared to ascertain the cost of goods manufactured.
44.	False: Manufacturing A/c is closed by transferring its balance to the debit of Trading A/c.
45.	False: Opening and Closing Stock of Raw Materials and Work in Progress and not Finished Goods are considered while preparing Manufacturing A/c.
46.	False: A Balance Sheet is a statement of assets and liabilities of an enterprise at a particular date.
47.	False: The most liquid asset is shown first and the most urgent payment to be made is shown first in order of liquidity.
48.	False: The least liquid asset is shown first and the least urgent payment to be made is shown first in order of permanence.
49.	False: Contingent liability is an unascertained liability but its amount and due date are indeterminate.

50.	False: Deferred revenue expenditure is future year's expenditure but paid in current year.
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CHAPTER 12 - NOT FOR PROFIT ORGANISATIONS

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Receipts and Payments Account is a summary of all capital receipts and payments.

[Nov. 1995, Nov. 1997, May 2005] Or

The Receipts and Payments account records receipts and payments of revenue nature only.

[May 1996]

2. Scholarship granted to students out of funds provided by Government will be debited to Income and Expenditure Account.,

[May 1995]

3. If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account.

[May 1997]

4. Receipts and Payments Account highlights total income and expenditure. [Nov. 1999]

5. Only revenue items are disclosed in Income and Expenditure account. [Nov. 2005]

6. Receipts and payments Account is a summary of all receipts and payments (whether capital or revenue) relating to current year.

7. Income and Expenditure Account is a summary of all revenue receipts and revenue payments relating to current year.

8. Income and Expenditure Account is a summary of all revenue income and payments relating to current year.

ANSWERS:

S. No.	Reason
1.	False: Receipts and Payments Account is a summary of all cash/bank receipts and payments whether capital or revenue in nature.
2.	False: The scholarship granted to students should be shown as deduction from the funds provided by the Government for the same purpose in the Balance Sheet.
3.	False: Such expenses will be deducted from sports fund only.
4.	False: Receipts and payments account is a classified summary of cash/bank receipts and payments over an accounting period together with cash and bank balances at the beginning and close of the period.
5.	True: Income and Expenditure Account is a revenue statement prepared to find out surplus/deficit. Hence, only revenue items are shown in the Income and Expenditure Account.

6.	False: Receipts and payments Account is a summary of all receipts and payments(whether capital or revenue) relating to current year,previous year or future year.
7.	False: Income and Expenditure Account is a summary of all revenue incomes and revenue expenses relating to current year.
8.	False: Income and Expenditure Account is a summary of all revenue income and revenue expenses relating to current year.

CHAPTER 13 - BILL OF EXCHANGE

State with reason whether the following statements are true or false (No Marks shall be

awarded without valid reason):

1. A bill given to a creditor is called bills payable.*[May 1996, Nov. 2001 and May 2004]*
2. A promissory note can be made payable to the bearer. *[May 1996, Nov 2000]*
3. A has drawn a bill on B. B accepts the same and endorses the bill to C.*[May 2000]*
4. No cancellation entry is required when a bill is renewed.
[May 1997, May 1998, Nov 2001, May 2004]
5. Cancelling old bill and drawing new bill is called renewal of bill. *[May 2001]*
6. Discount at the time of retirement of a bill is a gain for the drawee. *[Nov 1996 and May 2002]*
7. At the time of Renewal of a bill, Interest account is debited in the books of a drawee.
[May 2006]
8. Promissory Note requires acceptance. *[May 2006]*
9. Refusal by the acceptor to make payment of the bill on the maturity date is called Retirement of the bill.
[May 2005]
10. A bill of exchange is a conditional order in writing given by a Debtor to a Creditor.
[Nov 2005]
11. A Promissory Note is a written unconditional order to pay by a Creditor to a Debtor but a Bill of Exchange is a written unconditional undertaking to pay by a Debtor to a Creditor.
12. The term of bill after date commences from the date of acceptance of the bill but the term of Bill after sight commences from the date of drawing a bill.
13. In case of all bills of exchange, three days (days of grace) are added to due date to arrive at date of maturity.
14. In case of Insolvency of Acceptor, the amount which could not be recovered is debited to Deficiency A/c in the books of drawer and the amount which could not be paid is credited to Bad Debts A/c in books of drawee.
15. Rebate on Retirement of bill is an Expense for Drawer and an Income for Drawee.

16. On discounting of accommodation bills, the proceeds are shared by drawer and drawee equally. The party bears the discount in the proportion in which it shares the proceeds of bill, unless otherwise agreed.
17. In case of a public holiday the due date of the bill falls on the next working day.
18. Bill of Exchange is an unconditional promise to pay in writing.
19. When bill is endorsed or discounted, no entry is passed in the books of drawer.
20. When an endorsed or discounted bill is honoured, no entry is passed in the books of drawee.
21. When the bill is honoured on the due date, the drawee credits Bills Payable A/c in his books.
22. When the bill is discounted or endorsed, no entry for payment of the bill is passed in the books of the drawee.
23. In case of the dishonour of a bill, noting charges are initially paid by the drawee.
24. The bill is treated as dishonoured in case of insolvency of the drawee who pays only 75%.
25. When the bill is dishonoured, in drawee's books the banker (in case bill has been discounted) and Endorsee (in case bill has been endorsed) will be debited.
26. For drawing an accommodation bill some valuable consideration must pass between the two parties.
27. A Bills Receivable drawn on Ram recorded in B/R Book is posted to the debit of Bills Receivable A/c.
28. All individual entries from Bills Payable Journal are to be posted to the debit of Bills Payable A/c.
29. A bill of exchange is an unconditional promise in writing given by a debtor to a creditor.
30. A promissory note is an unconditional order in writing given by a creditor to a debtor.
31. Drawee and Payee can be the same person in a Bills Receivable.
32. Days of grace are added to date of maturity of bill to arrive at due date.

ANSWERS:

S. No.	Reason
1.	True: A bill given to a creditor is called Bills Payable because the debtor commits to pay by giving a bill to creditor.
2.	False: A promissory note cannot be made payable to the bearer. It is <i>payable to or to the order of a certain person</i> .
3.	False: B cannot endorse the bill to C because he is a drawee. Only A, the drawer can do so.
4.	False: When the bill is renewed, entries are passed first for cancellation of the old bill and then for recording of the new bill.

5.	True: When the acceptor of a bill fails to make the payment on the due date, a new bill may be drawn on him after cancellation of the old bill. This is known as renewal of a bill.
6.	True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer. Gain is basically an interest for the unexpired term of the bill.
7.	True: At the time of renewal of a bill, interest account is debited in the books of a drawee because it represents an expense for drawee.
8.	False: Promissory note does not require acceptance because it is already a valuable instrument. Bills receivable requires acceptance.
9.	False: Refusal by the acceptor to make payment of the bill on the maturity date is called dishonour of the bill.
10.	False: A bill of exchange is an unconditional order in writing given by a creditor to a debtor.
11.	False: A Promissory Note is a written unconditional undertaking to pay by a Debtor to a Creditor but a Bill of Exchange is a written unconditional order to pay by a Creditor to a Debtor.
12.	False: The term of bill after date commences from the date of drawing a bill but the term of Bill after sight commences from the date of acceptance of the bill.
13.	False: In case of all bills of exchange (other than payable on demand), three days (days of grace) are added to due date to arrive at date of maturity.
14.	False: In case of Insolvency of Acceptor, the amount which could not be recovered is debited to Bad Debts A/c in the books of drawer and the amount which could not be paid is credited to Deficiency A/c in books of drawee.
15.	False: Rebate on Retirement of bill is an Income for Drawer and an Expense for Drawee.
16.	False: On discounting of accommodation bills, the proceeds are shared by drawer and drawee in agreed ratio. The party bears the discount in the proportion in which it shares the proceeds of bill, unless otherwise agreed
17.	False: In case of a public holiday the due date of the bill falls on the preceding working day.
18.	False: Bill of Exchange is an unconditional order to pay in writing.
19.	False: When bill is endorsed or discounted, no entry is passed in the books of drawee.
20.	False: When an endorsed or discounted bill is honoured, no entry is passed in the books of drawer.

21.	False: When the bill is honoured on the due date, the drawee debits Bills Payable A/c in his books.
22.	False: When the bill is discounted or endorsed, no entry for payment of the bill is passed in the books of the drawer.
23.	False: In case of the dishonour of a bill, noting charges are initially paid by the holder of the bill.
24.	True: The bill is treated as dishonoured in case of insolvency of the drawee since he fails to pay at the date of maturity.
25.	False: When the bill is dishonoured, the drawer will be debited in books of drawee whether the bills is retained, endorsed or discounted.
26.	False: For drawing an accommodation bill consideration need not pass between the two parties
27.	False: A Bills Receivable drawn on Ram recorded in B/R Book is posted to the credit of Ram's A/c
28.	False: All individual entries from Bills Payable Journal are to be posted to the debit of drawer's A/c.
29.	False: A bill of exchange is an unconditional order in writing given by a creditor to a debtor.
30.	False: A promissory note is an unconditional promise in writing given by a debtor to a creditor.
31.	False: Drawer and Payee can be the same person in a Bills Receivable.
32.	False: Days of grace are added to due date of bill to arrive at date of maturity.

CHAPTER 14 - PARTNERSHIP—FUNDAMENTALS

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. A joint venture is a partnership under the Partnership Act. *[May 2000, May 2003]*
2. A partner who devotes more time to a business than other partners is entitled to get a salary.

[May 2000]

3. Partners can share profits or losses in their capital ratio, when there is no agreement. *[May 2001]*

4. The business of partnership firm must be carried on by all the partners. [Nov. 2005]
5. When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio. [May 2005]
6. Sharing of Profit is conclusive evidence of partnership but Mutual Agency is only a prima facie evidence of partnership.
7. Registration of a firm has to be effected before the formation of partnership.
8. Every partner is only jointly liable to third parties.
9. It is necessary to have Partnership Agreement in writing.
10. Terms of Partnership and nature of business of firm can be changed with the consent of majority of partners.
- 11. If the amount of available profits is less than the total amount of interest on capital, the available profits should be distributed in the profit sharing ratio of partners.**
12. If Partnership Deed is silent, Rate of Interest on loan by firm to a Partner shall be 6% p.m.
13. A partnership deed must be in writing.
14. In the absence of any provision in the partnership deed, the partners share profit and losses in the ratio of their capitals.
15. In the absence of any provision in the partnership deed, only a working partner (and not nonworking partner) is entitled to remuneration.
16. In the absence of any provision in the partnership deed, interest will be calculated on the total amount of drawings for a period of 12 months assuming that the amounts were drawn evenly throughout the year.
17. If a fixed amount is withdrawn on the first day of every month, the interest on the total amount of drawings will be calculated for a period of 6 months.
- 18. If a fixed amount is withdrawn on the last day of every month, the interest on the total of drawings will be calculated for a period of 6.5 months.**
19. Interest on loan given by a partner to the firm shall be paid if there are profits.
- 20. Current accounts of partners are maintained under the Fluctuating capital Method.**

ANSWERS:

S. No.	Reason
1.	False: Joint venture is not a partnership under the Partnership Act. Since it is only a kind of temporary trading relationship between co-venturers to carry out a commercial venture.
2.	False: No partner is entitled to a salary unless the partnership deed specifically provides for the same.
3.	False: Profits or losses are to be shared equally among partners if there is no agreement.

4.	False: The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.
5.	False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.
6.	False: Sharing of Profit is only a prima facie evidence of partnership but Mutual Agency is a conclusive evidence of partnership.
7.	False: Registration of a firm is optional and not compulsory and can be effected on or after the formation of partnership.
8.	False: Every partner is jointly and severally liable to third parties.
9.	False: It is not necessary to have Partnership Agreement in writing.
10.	False: Terms of Partnership and nature of business of firm can be changed only with the consent of all partners.
11.	False: If the amount of available profits is less than the total amount of interest on capital, the available profits should be distributed in the ratio of interest claims of partners.
12.	False: The Partnership Act has not prescribed any Rate of Interest on Loan by firm to Partner.
13.	False: A partnership deed need not in writing.
14.	False: In the absence of any provision in the partnership deed, the partners share profit be and losses equally.
15.	False: In the absence of any provision in the partnership deed, no partner is entitled to remuneration.
16.	False: In the absence of any provision in the partnership deed, interest will be calculated on the total amount of drawings for a period of six months assuming that the amounts were drawn evenly throughout the year.
17.	False: If a fixed amount is withdraw on the first day of every month, the interest on the total amount of drawings will be calculated for a period of 6.5 months.
18.	False: If a fixed amount is withdrawn on the last day of every month, the interest on the total of drawings will be calculated for a period of 5.5 months.
19.	False: Interest on loan given by a partner to the firm shall be paid even if there are losses.
20.	False: Current accounts of partners are maintained under the Fixed Capital Method.

CHAPTER 15 - ADMISSION OF A PARTNER

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Goodwill is a fictitious asset. [May 1996, May 2001, Nov. 2001 and May 2004]
Or
Goodwill is a current asset. [May 1998]
2. Goodwill is in the nature of personal account. [May 1999]
3. Goodwill brought in by an incoming partner in cash for joining a partnership firm is taken away by the old partners in their new profit sharing ratio. [May 2000]
4. A person may be admitted as partner either with the consent of majority of partners or in accordance with express agreement among partners .
5. There exists no difference between T surrenders $\frac{1}{3}$ rd of his share and 'Y' surrenders $\frac{1}{3}$ rd from his share.
6. Machinery Replacement Fund is credited to partners in their sacrificing.
7. Excess of Investment Fluctuation Reserve over difference between book value and market value is credited to Revaluation Account.
8. Excess of Workmen Compensation Reserve over Liability of Workmen Compensation is credited to Revaluation Account.
9. The ratio in which the old partners have agreed to sacrifice their shares in profit in favour of a new partner is called the gaining ratio.
10. Unless given otherwise, the ratio of sacrifice is the same as old profit sharing ratio.
11. The amount of goodwill brought in by the new partner is shared by old partners in their old profit sharing ratio.
12. The assets and liabilities are revalued at the time of admission of a partner so that the profit or loss arising on the revaluation of assets and liabilities upto the date of admission may be adjusted in the capital accounts of sacrificing partners only.
13. If, at the time of admission, provision for doubtful debts is to be reduced, it will be debited to Debtors Accounts.
14. Any amount released from the sale of unrecorded asset is debited to the old partners' capital accounts.
15. Any amount paid to discharge an unrecorded liability is credited to the old partners' capital accounts.
16. Gain or loss arising from revaluation of assets and liabilities is shared by old partners in their sacrificing ratio.
17. All accumulated profits, reserves, losses and fictitious assets appearing in the books of the firm at the time of admission, are transferred to old partners' capital accounts in their respective sacrificing ratio.

ANSWERS:

S. No.	Reason
1.	False: Goodwill is an intangible asset and not fictitious or current asset.
2.	False: Goodwill is an intangible asset therefore it is an item of <i>real account</i> .

3.	False: When a new partner brings in cash for goodwill, it is taken away by the old partners in their sacrificing ratio.
4.	False: A person may be admitted as partner either with the consent of all partners or in accordance with express agreement among partners (Sec. 31)
5.	False: There exists difference between 'B surrenders 1/3rd of his share' and 'B surrenders 1/3rd from his share'. If B's share is 2/5th, it means in the former case he has surrendered 2/15th [i.e. $(1/3) \times (2/5)$] share and B's New Share is 4/15 [i.e. $(2/5) - (2/15)$], in the latter case, he has surrendered 1/3rd share and B's New Share is 1/15 [i.e. $(2/5) - (1/3)$].
6.	False: Machinery Replacement Fund is not credited to partners because it is in the nature of accumulated depreciation and not accumulated profit.
7.	False: Excess of Investment Fluctuation Reserve over difference between book value and market value is credited to partners in Profit Sharing Ratio.
8.	False: Excess of Workmen Compensation Reserve over Liability of Workmen Compensation is credited to partners in Profit Sharing Ratio
9.	False: The ratio in which the old partners have agreed to sacrifice their shares in profit in favour of a new partner is called the sacrificing ratio.
10.	True: Unless given otherwise, it is presumed that old partners have surrendered their share in favour of incoming partner in their respective old profit sharing ratio.
11.	False: The amount of goodwill brought in by the new partner is shared by old partners in their sacrificing ratio.
12.	False: The assets and liabilities are revalued at the time of admission of a partner so that the profit or loss arising on the revaluation of assets and liabilities upto the date of admission may be adjusted in the capital accounts of old partners only.
13.	False: If, at the time of admission, provision for doubtful debts is to be reduced, it will be debited to Provision for Doubtful Debts Account.
14.	False: Any amount released from the sale of unrecorded asset is debited to Cash/Bank Account.
15.	False: Any amount paid to discharge an unrecorded liability is credited to Cash/Bank Account
16.	False: Gain or loss arising from revaluation of assets and liabilities is shared by old partners in their respective old profit sharing ratio.
17.	False: All accumulated profits, reserves, losses and fictitious assets appearing in the books of the firm at the time of admission, are transferred to old partners' capital accounts in their respective old profit sharing ratio.

CHAPTER 16 - PARTNERSHIP—RETIREMENT/DEATH OF A PARTNER

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. If a partner retires, then other partners have a gain in their profit sharing ratio. [May 2001]
 2. Joint life policy is taken by the partners in order to provide working capital for the firm. [June 1994]
- Or

The objective of taking a joint life policy by the partnership firm is to secure the lives of the existing partners of the firm. [Nov. 2002]

3. A partner may retire from firm either with the consent of majority of partners or in accordance with express agreement among partners.
4. Deceased Partner's Share of Profit is adjusted through P&L Suspense A/c which appears on the Liabilities side of the Balance Sheet.
5. The ratio in which the continuing partners acquire the outgoing (retired or deceased) partner's share is called as sacrificing ratio.
6. Unless given otherwise, the gaining ratio is the same as old profit ratio.
7. The assets and liabilities are revalued at the time of retirement/death of a partner so that the profit or loss arising on the revaluation of assets and liabilities up to date of retirement/death of a partner may be adjusted in the capital accounts of continuing partners only.
8. Gain or loss arising from revaluation of assets and liabilities up to date of retirement/death of a partner is shared only by continuing partners in their respective old profit sharing ratio.
9. All accumulated profits, reserves, losses and fictitious assets appearing in the books of the firm at the time of retirement of a partner are transferred only to continuing partners' capital accounts in their respective old profit sharing ratio.
10. The amount standing to the credit of deceased partner's capital account is transferred to his/her loan account in case it is not paid immediately.
11. Joint Life Policy is an assurance policy covering the lives of the partners jointly & severally.
12. Joint Life Policy becomes due in the event of death of any of the partners or on the maturity of the policy, whichever is later.
13. Surrender value of an insurance policy means the realizable value of an insurance policy in the event of the surrender of the policy to the Insurance company at the date of maturity.
14. A retired partner or the legal representative of a deceased partner can not claim a share in the subsequent profits of the firm in any case.

ANSWERS:

S. No.	Reason
1.	True: If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio unless otherwise agreed.
2.	False: The objective of taking a joint life policy is to minimize the financial hardships in the event of payment of a large sum to the legal representatives of a deceased partner or to the <i>retiring partner</i> .
3.	False: A partner may retire from firm either with the consent of all other partners or in accordance with express agreement among partners.
4.	False: Deceased Partner's Share of Profit is adjusted through P&L Suspense A/c which appears on the Assets side of the Balance Sheet.
5.	False: The ratio in which the continuing partners acquire the outgoing (retired or deceased) partner's share is called as gaining ratio.
6.	True: Unless given otherwise, it is presumed that continuing partners have acquired the outgoing (retired or deceased) partner's share in their respective old profit sharing ratio.
7.	False: The assets and liabilities are revalued at the time of retirement/death of a partner so that the profit or loss arising on the revaluation of assets and liabilities up to date of retirement/death may be adjusted in the capital accounts of all the partners.
8.	False: Gain or loss arising from revaluation of assets and liabilities up to date of retirement/ death of a partner is shared by all partners in their respective old profit sharing ratio.
9.	False: All accumulated profits, reserves, losses and fictitious assets appearing in the books of the firm at the time of retirement of a partner are transferred to all partners' capital accounts in their respective old profit sharing ratio.
10.	False: The amount standing to the credit of deceased partner 'capital account is transferred to his/her Executors's Loan Account in case it is not paid immediately.
11.	False: Joint Life Policy is an assurance policy covering the lives of the partners jointly.
12.	False: Joint Life Policy becomes due in the event of death of any of the partners or on the maturity of the policy, whichever is earlier.
13.	False: Surrender value of an insurance policy means the realizable value of an insurance policy in the event of the surrender of the policy to the Insurance company before the date of maturity.
14.	False: A retired partner or the legal representative of a deceased partner can claim a share in the subsequent profits of the firm if his accounts are not settled.

CHAPTER 17 - ACCOUNTING FOR SHARE CAPITAL

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Maximum number of members in case of private company is 50 .
2. Maximum paid up capital for Public Company is Rs.5 lakhs and for Private Company is Rs.1 lakh.
3. Equity Share Capital with differential rights as to voting or dividend can not be issued.
4. Unless otherwise stated a preference share is always deemed to be Non-Cumulative, Nonparticipating & Non-convertible.
5. Participating Preference Share is that share which in addition to two basic preferential rights also carries a right to participate in surplus profits and surplus assets.
6. Securities Premium can be applied to issue partly paid bonus shares.
7. Under the Capital Clause of Memorandum of Association, the amount of Issued Capital and its division into shares of fixed amount is required to be stated.
8. Issued Capital refers to paid up value of all shares allotted.
9. Shares issued to supplier of a fixed asset are required to be disclosed separately under the sub-head 'Issued Capital'
10. Reserve Capital and Capital Reserve carry the same meaning.
11. As per Table F, the Minimum rate of interest that can be charged on Calls-in-Arrear and that can be allowed on calls-in-advance are 10% p.m. and 12% p.m. respectively.
12. While passing an entry for Forfeiture, Share Capital A/c is debited with the amount Paid-up (excluding Securities Premium) till the stage of forfeiture.
13. While passing an entry for Forfeiture, Securities Premium is debited only with the amount of total Securities premium.
14. While passing an entry for Forfeiture Forfeited Shares A/c is credited with the total amount already received (whether on application or allotment or call).
15. While passing an entry for re-issue Share Capital is credited with the amount called up.
16. While passing an entry for re-issue, Securities Premium is credited with excess of re-issue price over the face value.
17. Share Application Account, Share Allotment Account, Share Call Account and Share Capital Account are Real Accounts.
18. Forfeited Shares Account, Securities Premium Account, Calls- in -arrears Account and Calls - in advance Account are Nominal Accounts.

ANSWERS:

S. No.	Reason
1.	False: Maximum number of members in case of private company is 200

2.	False: Minimum paid up capital for Public Company is Rs.5 lakhs and for Private Company is Rs.1 lakh.
3.	False: Equity Share Capital with differential rights as to voting or dividend may be issued.
4.	False: Unless otherwise stated a preference share is always deemed to be Cumulative, Non-participating & Non-convertible.
5.	False: Participating Preference Share is that share which in addition to two basic preferential rights also carries a right to participate in surplus profits and/ or surplus assets.
6.	False: Securities Premium can be applied to issue fully paid bonus shares.
7.	False: Under the Capital Clause of Memorandum of Association, the amount of Authorized Capital and its division into shares of fixed amount is required to be stated.
8.	False: Issued Capital refers to nominal value of all shares allotted.
9.	False: Shares issued to supplier of a fixed asset are required to be disclosed separately under the sub-head 'Subscribed Capital'.
10.	False: Reserve Capital refers to that portion of uncalled up share capital which shall not be capable of being called up except in the event and for the purposes of the company being wound up.. Capital Reserve refers to those amounts which are not regarded as free for distribution by way of dividend.
11.	False: As per Table F, the maximum rate of interest that can be charged on Calls-in-Arrear and that can be allowed on calls-in-advance are 10% p.a. and 12% p.a. respectively.
12.	False: While passing an entry for Forfeiture,,Share Capital A/c is debited with the amount called up (excluding Securities Premium) till the stage of forfeiture.
13.	False: While passing an entry for Forfeiture, Securities Premium is debited only with the amount of Securities premium due but not received.
14.	False: While passing an entry for Forfeiture Forfeited Shares A/c is credited with the amount already received (excluding Securities Premium) (whether on application or allotment or call).
15.	False: While passing an entry for re-issue Share Capital is credited with the amount of Paid-up Value.
16.	False: While passing an entry for re-issue, Securities Premium is credited with excess of re-issue price over the paid up value.
17.	False: Share Application Account, Share Allotment Account, Share Call Account and Share Capital Account are Personal Accounts.

18.	False: Forfeited Shares Account, Securities Premium Account are Nominal Accounts but Calls- in -arrears Account and Calls - in advance Account are Personal Accounts.
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CHAPTER 18 - ACCOUNTING FOR DEBENTURES

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Now Debentures can be issued at par /Premium but not at discount.
2. Like Shares a company can issue debentures with voting rights.
3. Debenture interest is calculated on issue price and is payable when there are profits after the payment of any dividend on shares.
4. Debenture Redemption Premium Account and Discount on issue of debentures Account are Nominal Accounts.

ANSWERS:

S.No.	Reason
1.	False: Debentures can be issued at par /Premium/ discount since there are no restrictions on issue of debentures at discount.
2.	False: Like Shares a company cannot issue debentures with voting rights.
3.	False: Debenture interest is calculated on face value and not on issue price and is payable irrespective of fact whether there are profits or not before the payment of any dividend on shares.
4.	False: Debenture Redemption Premium Account is a Personal Account but Discount on Issue of Debentures Account is a Nominal Account.